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## Management Advisory Services: Its Place in the Profession, Spring Meeting of Council, May 4, 1970

Jordon L. Golding

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"Management Advisory Services: Its Place in the Profession"

Representatives of the Committee on Management Services:

Jordan L. Golding, Chairman

C. Craig Bradley and Joseph E. Carrico, Members

Spring Meeting of Council, May 4, 1970

MR. JORDAN L. GOLDING: Thank you Lou.

The three of us are honored and flattered to be the first to talk to you with Senior Committee status.

I want to thank Lou and the Board of Directors for giving us the time here today to talk to you about a problem which we think is important.

Joe Carrico and Craig Bradley and myself will handle the matter.

I think the best way to start off, though, in talking about our problem is to quote from John Lawler's speech before Council in Colorado last year.

At that time John said, and I quote:

"The recruitment of specialized talents beyond the ranks of the profession also creates some interesting issues. One of them, certainly, is what recognition, if any, should be accorded to those non-CPA specialists by the profession itself? They command special prestige within their own firms, but the professional accounting societies have virtually ignored their existence. This results in a double deprivation. The professional organizations -- the AICPA -- loses the benefit of their skills and the specialists lose the benefit of participating in the work of our societies.

"From one point of view it does seem rather strange that they should play such an important role in the practice of professional accounting firms and yet have no part in professional affairs."

Later in his talk John Lawler went on to point out:

"It is obvious, it has long been obvious, that no single man can command the full range of knowledge which is necessary to the practice of accountancy. A growing number of specialists already exist; more are in prospect; yet the profession's organizations have virtually ignored

this fact of life. There is no formal program for testing competence of specialties, no means for them to achieve official recognition of their special skills, no effective machinery with adequate safeguards to facilitate the referral of engagements calling for the expert knowledge of specialists."

This is why we are here today. We are concerned about the practice of non-CPAs within our profession. We are here today to bring before Council the full impact of what John Lawler said, together with a plan of action.

We believe that the message we have applies to both small and large practices. The larger firms, no question, have many non-CPA specialists. For the smaller firms, the problem may even be more acute. There is a problem in recruiting such talent; there is the problem in retaining such talent.

Without further comment, I would like to turn the program over now to Joe Carrico who will talk about proliferation of non-CPAs in the profession today.

MR. JOSEPH E. CARRICO: As Jordan said, this is a problem of the entire profession. That is the point we want to get across today.

Regardless of the policies of individual firms and individual practitioners, there is no question but that management services is growing faster than other areas of practice. Of course, this is to be expected since it is a newer area of our practice.

We also think that it is contributing to the prestige of this profession within the business community.

We on the Management Advisory Services Committee have been doing some investigation of this field. One of our members

came up with a rather startling figure that even we didn't believe it firm about how many practitioners there were in our profession in the field of management advisory services.

Some firms already have around 20 per cent or more of their total professional staffs engaged full time or substantially full time in the practice of management advisory services.

We have tried to take an inventory of what this means to the entire profession. Our best estimate is that there are somewhere in the range of 6- to 8,000 full-time practitioners in the field of management advisory services within the United States.

The figures vary greatly by firm. We also tried to ascertain the statistics relative to professional accreditation. The best overall estimate is that of, these management advisory services practitioners within the profession, somewhere in the range of 20 to 25 per cent are certified. That ratio ran from less than 20 per cent in one major firm up as high as 35 per cent in a regional firm.

No firm with a substantive management advisory services practice had any figure percentage of its professional management advisory services staff that was certified.

In one specific case where we had precise statistics, the senior group of partners or principals were about 60% certified. These senior men of course joined the profession back in the days when practically everybody was an accounting major in school.

You move down to the second level of managers and supervisors, and they were about 40% certified.

At the staff levels it was much smaller than that.

The point to make here is that we already have a problem in that a high percentage of the professional men practicing in the field of public accounting, as defined by this Institute, are not accredited to the Institute itself.

Now the problem is that many of these people are not oriented toward the accounting and auditing aspects of our profession. This is basically because many of them didn't major in accounting in school and often do not obtain much exposure to auditing after they join their firms.

Now the obvious question that comes to mind is why is this true?

I think one of the most important reasons is the problem that each and every one of us face in our efforts to hire people. There simply are not enough accounting majors coming out of the universities in the United States to staff our firms to handle our auditing practice. We all have troubles meeting our requirements so, in Management Services where it is not essential to know income taxes, how to prepare consolidated financial statements, how to prepare partnership tax returns, do governmental accounting, etc., we hire men from other disciplines and give them the more limited accounting training required to practice in the field of management information systems. This is one of the reasons you see an increasing trend toward hiring MBAs with undergraduate engineering or economics degrees for our systems staffs.

Another reason is the nature of the practice in management advisory services. Systems design and implementation,

for example, frequently demand a very high degree of technical knowledge in computer applications, both in software and in the hardware area.

Also, the work we do in the analysis of alternatives is likely to involve quantitative measures using mathematical approaches that are considerably more advanced than those we employ in our usual accounting processes.

Also, the identification and measurement of work effort and of the physical materials that are required to establish product costs require training outside the conventional accounting area.

There are other cases where traditional accounting skills that most of us learned in school may not alone be adequate to the management services engagement objectives.

These and many other fields of knowledge that embrace the arts and sciences of management, as well as business organization, need to be blended into the practice of professional management advisory services. It is a simple fact of life that the number of CPAs who have adequate competence in all, or a substantial portion of these areas are simply not sufficient to meet the needs of our clients.

This is a synopsis of the subject I touched on a minute before. It is a synopsis of the conditions that have prompted accounting firms, both large and small, to turn to operations researchers, computer technicians, to industrial engineers, and to various other specialists to work in concert with the CPA in providing competent management advisory services. This is the

simple reason why so many of our management services people are not CPAs.

Now, what are the implications of this? The implications of the management advisory services specialist who is not a CPA but practicing in the public accounting profession involves problems which affect the AICPA and its membership, as well as the non-CPA specialist.

With reference to the Institute, it should be noted that we face a peculiar anomaly. The Code of Ethics, official statements, and other pronouncements of the Institute cannot bind a non-member. Thus, the non-CPA is not personally responsible to the Institute and cannot be censored, disciplined, or directly affected by the organization that presumably covers his professional activities.

In expressing this comment, I am quite aware of the responsibility of CPAs, firms, their partners, and other CPA executives, to see that all of their personnel conform to the Institute's philosophies and regulations.

However, the degree of control over work of the non-CPA and the extent of his conformity to our professional conventions depends upon the individual firm's organization structure and the manner in which it is administered.

This, of course, is not only subject to wide variation among firms, but is also an undesirable arrangement for any professional body, in my opinion.

Of equal importance, the non-CPA engaged in management services in public accounting is denied any membership in the

Institute except as provided secondhand through his CPA associates. This secondhand relationship, has in some minds, produced a kind of second-class citizenship in his status in the firm of his affiliation.

Another area we get into is that many of the firms, as our technology has exploded, have been hiring experienced men at advanced levels from outside the firm, Ph.D.s in operations research, experienced computer technicians from various manufacturers, and so forth. These men are already at an advanced stage in their careers. They come into a new profession; there is no formal method of indoctrinating them into that profession requiring a formal adherence to certain prescribed standards. We think that is an unhealthy situation for our profession.

Another problem is the attitude of the people within the firms. They work in these public accounting firms, they see that many of the other people, either in taxes or accounting, are required to have a license, they are accredited as CPAs; in the tax area many of them have law degrees, and so forth. These people see no such requirement for themselves and in a way it makes them feel as if they don't have accreditation in the profession they belong to. Some of them don't understand the ethical problems of our profession; of independence, scope of practice, et cetera.

We think if there were some formal method to bring them into our profession and into our Institute, that it would be easier. We would also have better protection, as a profession, in making them understand the environment in which they operate.



Now the question that comes to all of our minds who have become CPAs is, why don't we make them conform to the conventional requirements as we all have?

To start with, if we hire men who do not have a degree in accounting from an accredited university, we are running into increasing roadblocks in various states around the country. They have to have so many hours of this and so many hours of that. If you for example hire a young man from, say the Amos Tuck School at Dartmouth, he has excellent business training and we have found through experience, they are very valuable people. If you try to require such a man to go back to school and take evening courses in auditing, taxation and so forth, you will often find that his reaction is that such effort is simply not relative to the work he is doing or that he wants to do.

In this day and age it is very difficult to get young people to spend time putting in effort on things that are not relative to their careers.

However, in my opinion, it would be to our mutual advantage to do something to bring these people into our profession. Jordan Golding is going to talk later on about specific proposals that we have along that line for consideration by the Institute.

In addition to helping the men, we feel action along this line would benefit the entire profession. It would help improve communication with all of the people working in the profession so that they would understand the requirements for

independence, the ethics of the profession, and so forth, and to be able to fully participate in Institute affairs.

I have had personal experiences within my own group. I have had men I wanted to participate in a certain activity of the Institute, say the E.D.P. Committee of the local state society, or a request that comes out of the headquarters in New York for somebody to participate on an editorial board or something of that nature. I pick the right man and I suddenly find he is not a CPA, so I have got to pick the second best man.

I think if we make these people available to us within the Institute, we can upgrade the quality of our own affairs, of our own deliberation.

Incidentally, if we can add these thousands of people to the rolls of the Institute we will also help with the financial statement that Mr. Hanson was talking about this morning in that these people can also contribute to the expense of the Institute.

If we don't take action, the percentage of non-CPAs is going to continue to grow and instead of having our senior people be 50-60 per cent CPAs, that ratio is going down year by year.

I have covered in a few minutes some of the situations that we run into and how we got there. There will be time later on for questions.

I would like now to turn the podium over to Craig Bradley of Louisville, Kentucky, who will speak on this particular problem from a different vantage point.

Craig?

MR. C. CRAIG BRADLEY: Thank you Joe.

I don't mean to sound repetitive or sound "me tooish" to what Joe has said except for the fact that I represent a regional type firm, with five offices, on the Management Services Committee. We consider it quite an opportunity to be there.

Our approach to management services has been somewhat different from that of the larger national type firms, but our problems are still much the same. As yet, we have not attempted to provide services in some areas such as marketing, O.R. work, plant layout and design, and some of the other areas of practice provided to clients of the larger national firms.

Our approach has necessarily been to confine this phase of the practice to the so-called accounting-oriented areas. However, many of the basic problems in the smaller firms, the ones that are smaller than ours, the ones that are our size, the ones that are slightly larger, getting up to the national-type firm are the same as those of the larger national firms.

One of the chief concerns we have, that the smaller firm has, is the problem of recruiting, training, and especially keeping good people. Keeping our audit staff supplied with the excellence we want in CPA material is enough of a problem.

The training of people who have an adequate, specialized knowledge for management services work is not only difficult from the supply problem, but to the firm of our size the cost factor is one which also must be given consideration. To the smaller

firm, the one with up to, say, five to ten CPAs on the staff, this problem has to be given even stronger consideration.

It therefore seems it is much more economical for a firm of our size or a smaller one to employ people from the outside, ones who are specialists in a given area of practice, ones who know certain areas of management services work, and to train and indoctrinate these people to the CPA firm's approach to professional practice and thereby capably provide the client with the proper type of service.

In most of the smaller firms the younger college graduate is given an audit-oriented training program for approximately the first two years of his accounting career, and rightly so, because this is the area of practice that he must provide for himself in order to reach that first plateau, to pass the CPA examination if he is headed in the audit or tax area.

After this period, it then seems to require approximately two more years in order to train such a person, as an example, in the area of computers or in systems work. Then his practical experience does not enable him to become more than a limited specialist for some time to come.

Then think also of the out-of-pocket costs involved, not only in out-of-pocket dollars, but the time lost in sending this type of individual to classes, to seminars and meetings, training him in the manner in which he should be trained to become a specialist.

The same thing is true of the individual who wishes to become a specialist in systems-oriented work. However, the practical experience time is likely not as lengthy, nor as costly to train this particular type of individual.

In addition, when we look at the audit-oriented CPA in the smaller firm we must frequently raise such questions as: "Is he capable of becoming a problem solver?" "Is his temperament such that he can cope with the management-type problems which are thrown at him?" "How much ingenuity does he possess?" "How much imagination does this young man have?"

Much more frequently we find ourselves having to answer questions like these in the negative, rather than in the positive, when we consider taking a man from the audit staff to perform management services work. The supply of talent in the smaller firm is so limited that men with the abilities we need are hard to recruit and keep.

The audit-oriented man considers himself just that: An auditor. And the tax-trained man is much more interested in his specialized type of area. Therefore, in order to get into management services work and maintain a growth rate in the smaller firms, it is necessary to recruit outside the accounting or auditing-trained areas. Most smaller or medium-sized firms can well utilize the talents of a good business school graduate, one with a Liberal Arts, or an MBA degree. This man however, is not as technically trained as the one who points himself along the audit route.

But here, again, is the fact that he cannot become a CPA, and in many instances he is not interested in becoming an audit technician as a CPA, but interested in progressing along the route as a consultant, an advisor to management. And this is the area where recognition must be given to this class of people.

It seems that no matter how hard we try, these people just do not feel that they belong.

As an example of this, let me cite one case. Our first approach to formal departmentalization for management services work some years ago was to employ an accounting-oriented man who had trained with one of the country's largest consulting firms.

We gained much from this experience, as one would imagine. However, one of the principal reasons this consultant did not remain with us was the fact that he considered himself somewhat dead-ended. Unfortunately, as a non-CPA, he had no place to go. He just didn't fit into the accounting firm structure, other than as an employee. He was not a part of the professional organization; he could not become a part of the professional organization, the Institute or our state society. As a non-CPA, he felt like he was an outsider; he had the feeling that he was not a first-class citizen. What have we to offer this category of people?

This is an example which points up that in the future we must be able to accredit this form of specialist just as we do the individual involved in the attest function. To do this we must recognize the fact that to get and keep these specialists who can

minister to the ills of business, it will be necessary for us to modify our attitudes somewhat.

I recently had the opportunity to talk to a group of CPAs at a Chapter Meeting of the Tennessee Society of CPAs in the Eastern part of the State. As one might imagine, most of those people were from smaller type firms; they were from smaller communities. They were all interested in "How do we get into management services work?" "What can we do?" "How can we include ourselves in this large growth rate that is being maintained by most of the other firms across the country?"

The main problem that these people face, as well as the other smaller or regional type firms, is the staffing of these types of departments. It was most surprising to learn that they were all interested in management services work but they don't have the people who are capable of doing and performing the type of management services engagements their clients need. They therefore have to turn to the outside, in some form, to be able to have the talent that is necessary for this.

Our answer to them was much the same as the answer that we had to give to ourselves. The source is the hardware-manufacturer-trained-type computer men, the industry-trained-type systems men, those who are interested in systems and procedures work, and then most of these firms feel they cannot spend the time or the dollars to train people on their present staffs in the types of subjects necessary to get them into management advisory services.

The smaller independent firm must be given the opportunity to go into the market place and buy the talent necessary for coverage in this area, and be able to offer these people something other than just dollars and cents.

These smaller firms may offer these specialists the title of, say, principal or manager but the opportunity for advancement to the role of a partnership in this small firm is very, very limited, almost nil. Nor are the opportunities there to feel that these people are part of the profession, as they cannot belong to the professional organizations. Still the same old question: Second-class citizenship.

If we are then to continue to grow and be recognized as the doctors of business, the people who are most capable of treating the ills of business and provide the types of cures that the client of the smaller or regional type firm has and that this client expects from us, we then must provide an avenue whereby the people who are the specialists, but not the CPA attest type, can be accredited and recognized as part of us. And we submit that these people must be given an opportunity to have the role in their firms which they so justly deserve.

So, Jordan, I give it back to you.

MR. GOLDING: Thank you, Craig.

To bear out one of the points you made, I was on a panel in Massachusetts about two months ago. The discussion was on the recent publication by our committee on guidelines for the administration of a M.A.S. practice. The panel attracted some 50 or 60



people in the audience and they were predominantly from the small- or medium-sized firms.

After we had made the presentation with respect to the guideline publication I think we were amazed to find that the question period which ran for over an hour addressed itself not to the guidelines, but to this very issue. And these are small- and medium-sized firms, and I don't think there was a firm there that had more than 20 or 30 total staff, including partners.

They were concerned because they all wanted to get started in management services, they had read the guidelines, they understood them and so forth. Now where do they get the people? How do they really get started? We had given them the message and the avenue and so forth, but it takes people to accomplish this task.

Many expressed a total frustration because they just didn't have the manpower on their own audit and tax staffs to spin off and get somebody started in management services. Others commented that they just couldn't motivate people in this direction. And so they turned to the outside and about 50 per cent of those represented just could not attract people to come in for interviews. They had nothing to offer one non-CPA, coming into a predominantly CPA organization.

Those who were successful enough to bring in a man to get something off the ground found that after a while the cohesiveness and motivation was lost because he couldn't communicate on any common grounds with those in the firm.

So I think that what Joe Carrico has said and what Craig has said is certainly proven in this one particular meeting in Boston.

Another interesting aspect is that I think that one of the reasons the meeting was attended primarily by smaller practitioners is the percentage that Joe Carrico cited, that within the larger firms the greatest percentage are non-CPAs and never received notice of the meeting, so we lost out two ways.

Well, that's the problem. Now what do we do about it?

Number one, there has been talk in the past about Associate membership in the Institute; some of the state societies have this.

We think that Associate membership per se and alone answers no questions and still creates the second-class citizenship that Joe Carrico referred to earlier. As a committee we have unanimously rejected this as a viable course of action.

What we do believe in is accreditation and membership in the Institute. Two months ago we addressed the Board of Directors of the Institute in Dallas and we suggested a committee be formed to look into the problem of accreditation. Lou Kessler has already taken this by the hand and set up a committee, I believe headed by Ralph Lewis which will include people from audit tax, management services, and also from the field of education. They will also hopefully draw on non-CPAs to talk to as part of this committee, and people from the state boards.

What we recommend to the committee is an approach to the problem. We don't have the final answer and I am sure it will take a while for the committee to arrive at its own decision, or the course they have been charged on. But what we do have is an approach which we consider to be viable, realistic, and consistent with the concern that we have about specialization.

Number one: We think that there should be a testing procedure to arrive at accreditation. And what do we test on?

Well, first of all I think that these non-CPA specialists should have some meaning, some understanding as to what a CPA firm is all about. They should know what the attest function really means. Maybe they don't have to pass the auditing part of the Uniform CPA Examination, but they should know why we have auditing, what the auditor's certificate means if they are going to be an integral part of the CPA firm.

Consistent with that, they should be tested on the ethics of the profession. They should thoroughly know what the Code stands for, what it means, not only for management services, but for all aspects of the profession.

I think if we tie together these two points, you are going to have consultants on your staffs who will be able to a) communicate; b) work cohesively with the audit partners and, likewise, the audit partners will have a little more respect and common ground for talking to these non-CPAs and those especially who are brought in from the outside after a number of years of experience in industry or other non-CPA activities.

One of the members of our committee suggested -- he was an educator -- that possibly a key point to this examination should be what is now the Accounting Theory portion of the Uniform Examination. He felt although we shouldn't have to require these men to take all of the existing examination, that accounting theory represents a lot of logic, that many people do have some background, whether it be one or two courses in accounting, and that it is not inconceivable and not unrealistic to ask these people to take that as a pivot part of the examination. This would give them, again, some common ground.

If we are talking about men who are going to do systems work or solving other type of accounting-related problems, then the theory part of the examination certainly would make a lot of sense.

Finally, the examination would include elements of management advisory services work. They could be tested on the standards thus far promulgated by the committee, on the guidelines that the committee has put forth, and the possibility of testing them in a limited number of specific specialized areas. The main thing is that the non-CPA, if he passes this examination, will understand the environment that he is supposed to be working in. And I believe that by doing this the greatest benefit will be not to the non-CPA who becomes accredited; the greatest benefit will be to the CPA profession and the CPAs now in the profession.

I think a further advantage to this type of approach would be that the image of the consulting phase of our practices would be enhanced within the business and financial community.

Again, what we have said before are merely suggestions. The committee itself, headed by Ralph Lewis, will have the task of finding the ultimate answer. But our recommendations we believe are viable; we believe they face up to the challenges ahead. We must bear in mind that at the past two Council sessions we have encouraged all members of the Institute to perform those M.S. services which they are qualified for.

Many of these skills expected by our clients are better serviced by people who are now non-CPAs. We feel if we are to perform these functions the members should have the opportunity for accreditation and membership in the AICPA.

If we don't do this, we are going to have this imbalance that Joe Carrico has cited statistically; it's going to get worse. The problem is not going to go away if we ignore it.

I would like to close by remembering that our leaders have recently written two books. One is entitled, "The CPA Plans For The Future"; another is entitled, "Horizons For A Profession." They both suggest the future.

We suggest that the future is here and the action is required now.